

Message Text

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ACTION EUR-12

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XMB-02 OPIC-03 STR-04 ACDA-07 OES-06 /106 W

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R 051521Z MAY 76

FM AMEMBASSY BONN

TO SECSTATE WASHDC 8608

INFO USLO PEKING

AMCONSUL HONG KONG

USMISSION EC BRUSSELS

AMEMBASSY TAIPEI

AMEMBASSY TOKYO

C O N F I D E N T I A L SECTION 01 OF 02 BONN 07550

E.O. 11652: GDS

TAGS: EEWT, CH, GW

SUBJ: ROHWEDDER IN CHINA; CHINESE FOREIGN TRADE POLICY

REF: BONN 5675

1. SUMMARY: ROHWEDDER'S VISIT TO CHINA WAS SOMETHING OF A DISAPPOINTMENT FOR THE FRG SINCE THE CHINESE WERE NOT PREPARED TO ENGAGE IN SUBSTANTIVE DISCUSSIONS ON ECONOMIC TOPICS OF MUTUAL INTEREST. THE CHINESE DID REITERATE THEIR COMMITMENT TO A FURTHER EXPANSION OF TRADE WITH THE WEST AND TO A TRADE AGREEMENT WITH THE EC, BUT DID NOT SHOW GREAT ENTHUSIASM IN EITHER REGARD. END SUMMARY.

2. EMBOFF MET MAY 3 WITH VON LINGELSHEIM, CHINA DESK OFFICER IN ECONMIN WHO ACCOMPANIED STATE SECRETARY ROHWEDDER TO CHINA AND HONG KONG. VON LINGELSHEIM CHARACTERIZED THE PEKING PORTION OF THE VISIT AS CONFIDENTIAL

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DISAPPOINTING, BUT ACKNOWLEDGED THAT GERMAN EXPECTATIONS

PRIOR TO DEPARTURE MAY HAVE BEEN UNJUSTIFIABLY HIGH. CHINESE PRESENTATION OF THE LIST OF RAW MATERIALS WHICH THEY COULD EXPORT TO THE FRG AND THE REPEATED CHINESE REQUESTS DURING 1975 AND EARLY 1976 FOR A VISIT BY ROHWEDDER LED ECONMIN OFFICIALS TO ASSUME THAT THE CHINESE WERE INTERESTED IN SERIOUS DISCUSSIONS OF A NUMBER OF ECONOMIC TOPICS. AS IT TURNED OUT, THE CHINESE OFFERED ONLY GENERAL COMMENTS ON THE BROAD RANGE OF BILATERAL ECONOMIC RELATIONS. ACCORDING TO VON LINGELSHEIM, THE CHINESE VIEWED THE TRIP AS A DEMONSTRATION OF "POLITICAL GOOD WILL" RATHER THAN AS AN OPPORTUNITY FOR ECONOMIC NEGOTIATIONS. ALTHOUGH TREATED ROYALLY, THE GERMAN DELEGATION HAD HOPED FOR MORE TANGIBLE RESULTS.

3. THE GENERAL TONE OF THE DISCUSSIONS WAS A PLEASANT SURPRISE FOR THE GERMAN DELEGATION AND A PLEASANT CONTRAST TO FRG DISCUSSIONS WITH THE OTHER STATE-TRADING NATIONS. RATHER THAN EMPHASIZING THE IMPEDIMENTS TO TRADE AND THE LARGE CHINESE TRADE DEFICIT WITH THE FRG, CHINESE FOREIGN TRADE MINISTER LI CH'ANG PRAISED THE FRG FOR ITS EFFORTS IN EXPANDING THE QUOTAS ON CHINESE EXPORTS TO EUROPE. CH'ANG EXPRESSED NO CONCERN OVER THE TRADE IMBALANCE, AND SAID THERE WERE NO PROBLEMS BETWEEN THE FRG AND PRC IN THE TRADE FIELD. IN AN INDIRECT REFERENCE TO RECENT INTERNAL EVENTS IN CHINA, ROHWEDDER ASKED IF CHINESE FOREIGN TRADE POLICY WOULD SHOW ANY DEMONSTRABLE CHANGES IN THE NEXT FEW MONTHS. CH'ANG RESPONDED THAT THERE WOULD BE NO CHANGE IN THE POLICY BECAUSE IT WAS BASED UPON PRINCIPLES SET DOWN DIRECTLY BY MAO. OUR SOURCE INTERPRETS THIS STATEMENT AS AN INDICATION OF CONTINUED PRC WILLINGNESS TO EXPAND WESTERN IMPORTS AND TO ACCEPT THE CONCOMITANT TRADE DEFICITS. AT THE SAME TIME, HOWEVER, HE PERSONALLY BELIEVES THAT THE CHINESE ARE BECOMING MORE CAUTIOUS ABOUT THE GROWTH IN IMPORTS, PERHAPS BECUASE OF THE OVERLY AGRESSIVE IMPORT POLICY OF THE PAST FEW YEARS, OR PERHAPS BECAUSE OF LIMITS TO ABSORPTIVE CAPACITY. THIS CAUTIOUS ATTITUDE, IN HIS VIEW, WILL BE REFLECTED IN A

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REDUCTION OF THE GROWTH RATE IN FRG EXPORTS TO CHINA.

4. RAW MATERIALS: THE GERMAN DELEGATION WAS PARTICULARLY DISAPPOINTED WITH THE CHINESE DISINTEREST IN RAW MATERIAL DISCUSSIONS. THE RECENT CHINESE RESPONSE TO THE FRG'S LIST OF 70 RAW MATERIALS (WHICH IT WISHED TO IMPORT FROM CHINA) LED ROHWEDDER TO EXPECT SERIOUS DISCUSSIONS ON QUANTITIES, PRICES AND

MATERIALS TO BE DELIVERED. THE CHINESE LIST OF OFFERINGS TURNED OUT TO BE NOTHING MORE THAN A LIST OF THOSE RAW MATERIALS ALREADY EXPORTED TO THE WEST, AND THE CHINESE WERE UNWILLING TO DISCUSS IF, WHEN AND HOW MUCH OF ANY PARTICULAR MATERIAL COULD BE DELIVERED TO THE FRG. DEPUTY FOREIGN TRADE MINISTER SHU-FAN TOLD THE GERMAN DELEGATION THAT THE AMOUNT OF TIME NEEDED TO DEVELOP THE VARIOUS RAW MATERIAL SECTORS AND THE

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C O N F I D E N T I A L SECTION 02 OF 02 BONN 07550

REQUIREMENTS OF THE DOMESTIC MARKET WOULD MAKE A SIGNIFICANT EXPANSION OF RAW MATERIAL EXPORTS IN THE NEAR FUTURE IMPOSSIBLE. WITH RESPECT TO COAL, VON LINGELSHHEIM TOLD US THAT NO FURTHER DISCUSSIONS ARE EXPECTED. HE BELIEVES THAT THE SUBJECT OF CHINESE COAL EXPORTS TO THE FRG IS DEAD, A WELCOME OUTCOME IN THE VIEW OF THE GERMAN GOVERNMENT. PROSPECTS IN

OIL TRADE ARE NO BRIGHTER ALTHOUGH VEBA AND KLOCKNER CONTINUE DISCUSSIONS. GERMAN PRESS HAS NOTED THAT THE CHINESE HAVE RECENTLY REDUCED DELIVERIES TO JAPAN BECAUSE OF EXPANDING DOMESTIC DEMAND. VON LINGELSHEIM HEARD MENTION OF A PRICE OF DM 240 PER TON DURING THE VISIT, BUT WAS NOT SURE IF THIS WAS THE CHINESE OFFER OR VEBA BID.

5. CREDIT AND FINANCIAL TRANSACTIONS: THE CHINESE REITERATED THEIR DOGMATIC POSITION ON ACCEPTANCE OF CONFIDENTIAL

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WESTERN CREDITS, MUCH TO THE IRRITATION OF THE GERMAN SIDE, WHICH HAD COME PREPARED TO TALK ABOUT WAYS OF STREAMLINING THE COMPLICATED METHODS USED BY THE CHINESE TO FINANCE WESTERN PURCHASES. IN ADDITION TO THE PREVIOUSLY REPORTED REQUESTS FOR LENGTHENED EPAYMENT PERIODS ON "DEFERRED-PAYMENT" PURCHASES (REFTEL), THE CHINESE ARE DEMANDING LARGER DEPOSITS BY GERMAN BANKS INTO NON-INTEREST-BEARING ACCOUNTS IN THE BANK OF CHINA'S LONDON BRANCH. AS REPORTED REFTTEL, THESE PROCEDURES ARE CAUSING MORE GERMAN EXPORTERS TO SEEK HERMES GUARANTEES ON EXPORTS TO CHINA.

6. TRADE IMBALANCE: AT NO TIME DID THE CHINESE INDICATE A NEED TO REDUCE THEIR IMPORTS FROM THE FRG IN ORDER TO BRING BILATERAL TRADE INTO BALANCE, NOR DID THEY DISCUSS THE EC QUOTAS ON TEXTILES, CERAMICS, AND OTHER CHINESE PRODUCTS. VON LINGELSHEIM DOES NOT BELIEVE THAT THE TRADE DEFICIT IS A MATTER OF CONCERN TO THE PRC SINCE ITS INVISIBLE ACCOUNT IS STRONGLY IN THE BLACK. ACCORDING TO THE GERMAN CONSULATE IN HONG KONG, INVISIBLE TRANSACTIONS WITH HONG KONG HAVE VIRTUALLY ERASED CHINA'S TRADE DEFICIT WITH THE WEST.

7. RELATIONS WITH THE EC: ROHWEDDER WAS TOLD THAT THE PRC IS STILL INTERESTED IN ENTERING INTO A TRADE AGREEMENT WITH BRUSSELS. THE CHINESE HAVE NO SENSE OF URGENCY HOWEVER, AND ARE APPARENTLY WILLING TO WAIT FOR ANOTHER YEAR OR TWO. VON LINGELSHEIM POSITS THAT THE CHINESE ARE STILL CONFUSED BY THE STRUCTURE OF TRADE AGREEMENTS WITH THE EC AND WISH TO ANALYZE EC TRADE PROCEDURES MORE THOROUGHLY BEFORE PROCEEDING. EVEN BEFORE NEGOTIATIONS BEGIN, HOWEVER, PROBLEMS ARE BEGINNING TO CROP UP. THE CHINESE TAKE EXCEPTION IN PRINCIPLE TO SAFEGUARD CLAUSES, WHICH THEY HAVE LABELED A DEFENSIVE TOOL OF THE CAPITALIST SYSTEM, AND THEY HAVE A DIFFERENT VIEW OF MFN TREATMENT THAN THAT GENERALLY PROVIDED IN THE EC MODEL TRADE AGREEMENTS. VON LINGELSHEIM FORESEES DIFFICULT NEGOTIATIONS WITH

LITTLE TANGIBLE RESULTS.

8. FUTURE EVENTS: THE ECONMIN WILL NOW FOCUS ITS
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ATTENTION ON THE FIRST MIXED COMMISSION MEETING, WHICH
WILL BE HELD IN SEPTEMBER IN PEKING. THE FRG WILL
AGAIN BE PREPARED TO DISCUSS THE SPECIFICS OF TRADE AND
LARGE COMMERCIAL DEALS AND HOPES THAT THE CHINESE SIDE
WILL BE SIMILARLY PREPARED. BETWEEN NOW AND THEN,
FRG/CHINA ECONOMIC RELATIONS WILL ONLY MARK TIME.
HILLENBRAND

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